

**VILLAGE OF UNION CITY,  
MICHIGAN**

**Union City, Michigan**

**FINANCIAL STATEMENTS**

**For The Year Ended  
March 31, 2004**

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Union City	County Calhoun/Branch
Audit Date 3/31/04	Opinion Date 5/28/04	Date Accountant Report Submitted to State: 8/12/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

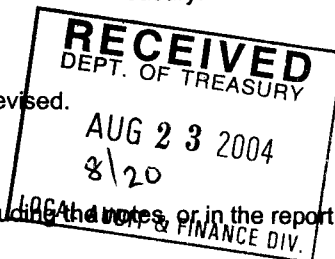
You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature <i>Rehmann Robson</i>			



# VILLAGE OF UNION CITY, MICHIGAN

## TABLE OF CONTENTS

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	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1-2
<b>General Purpose Financial Statements</b>	
Combined Balance Sheet – All Fund Types	3
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances – All Governmental Fund Types	4
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances – Amended Budget and Actual – General and Special Revenue Funds	5
Statement of Revenue, Expenses, and Changes in Retained Earnings – Proprietary Fund Type	6
Statement of Cash Flows – Proprietary Fund Type	7
Notes to Financial Statements	8-17
<b>Combining and Individual Fund Financial Statements</b>	
<b>General Fund</b>	
Statement of Revenue, Expenditures, and Changes in Fund Balance – Amended Budget and Actual	18
<b>Special Revenue Funds</b>	
Combining Balance Sheet	19
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance	20
Major Street Fund:	
Statement of Revenue, Expenditures, and Changes in Fund Balance – Amended Budget and Actual	21
Local Street Fund:	
Statement of Revenue, Expenditures, and Changes in Fund Balance – Amended Budget and Actual	22
Revolving Loan Fund:	
Statement of Revenue, Expenditures, and Changes in Fund Balance – Amended Budget and Actual	23

# VILLAGE OF UNION CITY, MICHIGAN

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<b>Enterprise Funds</b>	
Combining Balance Sheet	24
Combining Statement of Revenue, Expenses, and Changes in Retained Earnings	25
Combining Statement of Cash Flows	26
<b>Fiduciary Funds</b>	
Trust and Agency Fund: Balance Sheet	27
Compensated Absences Agency Fund - Statement of Changes in Assets and Liabilities	28
<b>Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit Of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b>	29-30

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT**

May 28, 2004

Village Council  
Village of Union City  
Union City, Michigan

We have audited the accompanying general purpose financial statements of the **VILLAGE OF UNION CITY, MICHIGAN**, as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 3, the general purpose financial statements referred to above do not include the general fixed assets account group, which should be included to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Village of Union City** as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 28, 2004, on our consideration of the *Village of Union City's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Lehmann Johnson*

# **GENERAL PURPOSE FINANCIAL STATEMENTS**

**VILLAGE OF UNION CITY, MICHIGAN**  
**Combined Balance Sheet**  
**All Fund Types**  
**March 31, 2004**

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Trust and Agency</u>	
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 215,639	\$ 454,837	\$ 566,823	\$ 97,449	\$ 1,334,748
Receivables:					
Accounts	-	-	217,293	-	217,293
Special assessments	27,200	-	325,983	-	353,183
Due from other governments	23,257	22,045	-	-	45,302
Inventory	-	16,492	152,457	-	168,949
Land investment	-	-	61,875	-	61,875
Restricted assets:					
Cash and cash equivalents	-	-	473,796	-	473,796
Fixed assets, net	-	-	5,767,739	-	5,767,739
Other assets	-	-	500,127	-	500,127
<b><u>TOTAL ASSETS</u></b>	<b>\$ 266,096</b>	<b>\$ 493,374</b>	<b>\$ 8,066,093</b>	<b>\$ 97,449</b>	<b>\$ 8,923,012</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 9,832	\$ 1,093	\$ 110,672	\$ -	\$ 121,597
Accrued wages	8,883	796	11,285	-	20,964
Accrued interest payable	-	-	12,274	-	12,274
Customer deposits	-	-	68,382	-	68,382
Deferred revenue	27,200	-	-	-	27,200
Revenue bonds	-	-	2,771,000	-	2,771,000
Compensated absences	-	-	-	97,449	97,449
<b>Total liabilities</b>	<b>45,915</b>	<b>1,889</b>	<b>2,973,613</b>	<b>97,449</b>	<b>3,118,866</b>
<b>Fund equity</b>					
Contributed capital	-	-	2,193,265	-	2,193,265
Retained earnings:					
Reserved for bond reserve	-	-	368,296	-	368,296
Reserved for equipment replacement	-	-	105,500	-	105,500
Unreserved	-	-	2,425,419	-	2,425,419
Fund balances:					
Reserved for inventory	-	16,492	-	-	16,492
Unreserved - undesignated	220,181	474,993	-	-	695,174
<b>Total fund equity</b>	<b>220,181</b>	<b>491,485</b>	<b>5,092,480</b>	<b>-</b>	<b>5,804,146</b>
<b><u>TOTAL LIABILITIES AND FUND EQUITY</u></b>	<b>\$ 266,096</b>	<b>\$ 493,374</b>	<b>\$ 8,066,093</b>	<b>\$ 97,449</b>	<b>\$ 8,923,012</b>

The accompanying notes are an integral part of these financial statements.



**VILLAGE OF UNION CITY, MICHIGAN**  
**Combined Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances**  
**All Governmental Fund Types**  
**For the Year Ended March 31, 2004**

	General	Special Revenue	Total (Memorandum Only)
<b>Revenue</b>			
Taxes	\$ 197,862	\$ 76,297	\$ 274,159
State shared revenue	219,068	130,757	349,825
Charges for services/fire runs	85,530	-	85,530
Sidewalk assessment	9,346	-	9,346
Interest and rentals	970	5,030	6,000
Equipment rentals	18,392	-	18,392
Planning and zoning	280	-	280
Fines	2,533	-	2,533
Other revenue	1,855	1,368	3,223
	<hr/>	<hr/>	<hr/>
Total revenue	535,836	213,452	749,288
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Current:			
Legislative	4,043	-	4,043
General government	288,470	-	288,470
Public safety	296,019	-	296,019
Public works	-	150,409	150,409
	<hr/>	<hr/>	<hr/>
Total expenditures	588,532	150,409	738,941
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	(52,696)	63,043	10,347
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	272,877	428,442	701,319
	<hr/>	<hr/>	<hr/>
<b>Fund balances, end of year</b>	\$ 220,181	\$ 491,485	\$ 711,666
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF UNION CITY, MICHIGAN**  
**Combined Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances - Amended Budget and Actual**  
**General and Special Revenue Funds**  
**For the Year Ended March 31, 2004**

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>						
Taxes	\$ 208,000	\$ 197,862	\$ (10,138)	\$ 103,923	\$ 76,297	\$ (27,626)
State shared revenue	278,650	219,068	(59,582)	91,034	130,757	39,723
Charges for services/fire runs	90,158	85,530	(4,628)	-	-	-
Sidewalk assessment	60,000	9,346	(50,654)	-	-	-
Interest and rentals	-	970	970	840	5,030	4,190
Equipment rentals	8,500	18,392	9,892	-	-	-
Planning and zoning	-	280	280	-	-	-
Fines	-	2,533	2,533	-	-	-
Other revenue	-	1,855	1,855	-	1,368	1,368
Total revenue	675,308	535,836	(139,472)	195,797	213,452	17,655
<b>Expenditures</b>						
Current:						
Legislative	5,000	4,043	957	-	-	-
General government	365,840	288,470	77,370	-	-	-
Public safety	339,615	296,019	43,596	-	-	-
Public works	-	-	-	205,469	150,409	55,060
Total expenditures	710,455	588,532	121,923	205,469	150,409	55,060
Revenue over (under) expenditures	(35,147)	(52,696)	(17,549)	(9,672)	63,043	72,715
Fund balances, beginning of year,	272,877	272,877	-	428,442	428,442	-
<b>Fund balances, end of year</b>	<b>\$ 237,730</b>	<b>\$ 220,181</b>	<b>\$ (17,549)</b>	<b>\$ 418,770</b>	<b>\$ 491,485</b>	<b>\$ 72,715</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF UNION CITY, MICHIGAN**  
**Statement of Revenue, Expenses, and**  
**Changes in Retained Earnings**  
**Proprietary Fund Type**  
**For the Year Ended March 31, 2004**

	<b>Enterprise Funds</b>
<b>Operating revenue</b>	<u>\$ 2,204,247</u>
<b>Operating expenses</b>	
General administration	735,257
Maintenance	27,017
Production	950,148
Power and pumping	54,434
Distribution	158,056
Depreciation	<u>197,991</u>
Total operating expenses	<u>2,122,903</u>
Operating income	<u>81,344</u>
<b>Non-operating revenue (expense)</b>	
Interest income	14,183
Interest expense	<u>(131,707)</u>
Total non-operating expense	<u>(117,524)</u>
Net loss	(36,180)
<b>Add depreciation on contributed assets     acquired with capital grants</b>	<u>75,264</u>
Increase in retained earnings	39,084
Retained earnings, beginning of year	<u>2,860,131</u>
<b>Retained earnings, end of year</b>	<u><u>\$ 2,899,215</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF UNION CITY, MICHIGAN**

**Statement of Cash Flows**

**Proprietary Fund Type**

**For the Year Ended March 31, 2004**

	<b>Enterprise Funds</b>
<b>Cash flows from operating activities</b>	
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 81,344
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	197,991
(Increase) decrease in assets:	
Receivables	25,715
Inventory	18,845
Investment in MSCPA	(143,388)
Increase (decrease) in liabilities:	
Accounts payable	(13,742)
Accrued liabilities	(1,828)
Customer deposits	12,609
Total adjustments	96,202
Net cash provided by operating activities	177,546
<b>Cash flows from capital and related financing activities</b>	
Purchases of fixed assets	(40,500)
Principal paid on general obligation bonds	(65,000)
Interest paid on general obligation bonds	(132,105)
Net cash used in capital and related financing activities	(237,605)
<b>Cash flows from investing activities</b>	
Interest received	14,183
Net decrease in cash and cash equivalents	(45,876)
Cash and cash equivalents, beginning of year	1,086,495
Cash and cash equivalents, end of year	\$ 1,040,619

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

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### 1. REPORTING ENTITY

In accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations may be considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14 for the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibilities and financial accountability.

In this regard, there are no other governmental organizations associated with the Village subject to the above criteria nor are there any other governmental organizations in existence. All funds and account groups of the reporting entity are included in the general purpose financial statements as presented.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **BASIS OF PRESENTATION - FUND ACCOUNTING**

The accounts of the Village are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report, into the following fund categories, fund types, and account groups:

#### **GOVERNMENTAL FUNDS**

**General Fund** - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and State and Federal distributions, grants and other intergovernmental revenues.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

#### **PROPRIETARY FUNDS**

**Enterprise Funds** - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Only Financial Accounting Standards Board statements issued prior to November 30, 1989 have been applied to the proprietary funds.

# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

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### **FIDUCIARY FUNDS**

**Trust and Agency Funds** - Trust and Agency Funds are used to account for assets held by the Village in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### **ACCOUNT GROUP**

**General Long-Term Debt Account Group** - This account group is used to account for all long-term obligations of the Village, except those accounted for in Proprietary Funds.

### **MEMORANDUM ONLY - TOTAL COLUMNS**

Total columns on the combined financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

### **BASIS OF ACCOUNTING**

The Governmental Fund Types and the Agency Fund utilize the modified accrual basis of accounting. Under this method, revenues are recorded when received in cash except for those susceptible to accrual, which are recorded as receivables when measurable and as revenue when available to finance current operations. Revenues susceptible to accrual include expenditure reimbursement type grants, certain intergovernmental revenues and operating transfers. Expenditures are recorded when the liability is incurred, except for interest on long-term debt, which is recorded when paid.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. All financial resources of the fund, whether current or noncurrent, are recorded in the fund. Fund equity represents contributed capital and retained earnings.

### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

# **VILLAGE OF UNION CITY, MICHIGAN**

## **Notes To Financial Statements**

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### **BUDGETS**

The governmental funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those contained in the formal budget approved by the Village Board. Budgetary control is exercised at the functional level. Each budget amendment must have Council approval.

### **SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables, if any, are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

### **RECEIVABLES**

All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

### **INVENTORIES**

Inventories are valued at cost, which approximates market, using the average cost method.

### **FIXED ASSETS**

Capital assets of the Enterprise funds are stated at cost, or at estimated market value on date of donation, if donated. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

### **CONTRIBUTED CAPITAL**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from customers and State and Federal grants prior to June 30, 2000.

# **VILLAGE OF UNION CITY, MICHIGAN**

## **Notes To Financial Statements**

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### **INTERFUND TRANSACTIONS**

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund, are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

### **PENSION PLAN FUNDING**

The Village's policy is to fund pension costs as they accrue.

### **COMPENSATED ABSENCES**

Accumulated unpaid vacation, sick, and personal days are accrued when earned.

## **3. DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The Village records the cost of properties and equipment as current expenditures of the General and Special Revenue Funds. The accumulated costs since formation, less disposals, are not included in a group of accounts in the financial statements. Generally accepted accounting principles for governmental units require the establishment of a general fixed asset account group in which properties and equipment are recorded at historical cost, or estimated historical cost if actual historical cost is not available.

## **4. PROPERTY TAXES**

The Village property tax is levied each July 1 on the assessed valuation of property located in the Village as of the preceding December 31, the lien date. Real and personal property in the Village of Union City for the 2003 levy had a taxable value of \$19,182,600 representing approximately 50 of estimated true cash value, as assessed by the County. The Village's general operating tax rate for fiscal year 2003-04 was 10.3899 mills and 4.1465 mills for the Village Roads.

## **5. RISK MANAGEMENT**

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2004, the government carried commercial insurance to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.



# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

### 6. CASH AND CASH EQUIVALENTS

#### Deposits

Cash and cash equivalents on the combined balance sheet is comprised of the following:

Cash and cash equivalents	<u>\$ 1,808,544</u>
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At year end, the carrying amount of the Village's deposits was \$1,808,544. The bank balance of these deposits was \$1,813,173, of which \$100,000 was insured by the Federal Depository Insurance Corporation (FDIC), and the balance of \$1,713,173 was uninsured and uncollateralized.

### 7. FIXED ASSETS

A summary of fixed assets of the enterprise funds at March 31, 2004 follows:

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Land	\$ 117,696	\$ -	\$ -	\$ 117,696
Plant and equipment	<u>668,542</u>	<u>1,036,324</u>	<u>5,782,021</u>	<u>7,486,887</u>
<b>Total cost</b>	<b>786,238</b>	<b>1,036,324</b>	<b>5,782,021</b>	<b>7,604,583</b>
Less: accumulated depreciation	<u>(375,499)</u>	<u>(273,924)</u>	<u>(1,187,421)</u>	<u>(1,836,844)</u>
	<u><b>\$ 410,739</b></u>	<u><b>\$ 762,400</b></u>	<u><b>\$ 4,594,600</b></u>	<u><b>\$ 5,676,739</b></u>

# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

### 8. INVESTMENT IN MICHIGAN SOUTH CENTRAL POWER AGENCY

The Michigan South Central Power Agency (M.S.C.P.A) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<b>Percent Of Ownership</b>
CITY OF COLDWATER	40.0%
CITY OF HILLSDALE	25.5
CITY OF MARSHALL	24.0
VILLAGE OF CLINTON	6.5
VILLAGE OF UNION CITY	<u>4.0</u>
	<b><u>100.0%</u></b>

The Village of Union City is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with G.A.S.B. Statement #14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2003, audited by other auditors, whose report dated August 7, 2003, expressed an unqualified opinion on those statements.

The Village has entered into a Power Sales Contract with M.S.C.P.A. which requires the Village to purchase all of its bulk power supply from M.S.C.P.A. and to pay its share of M.S.C.P.A.'s operating and debt service costs. The Village has also entered into an agreement for services to be provided by the M.S.C.P.A. in respect to substation facilities and an agreement which requires the Village to sell to M.S.C.P.A. power generated by its facilities.

Summary information of the Village's investment in the M.S.C.P.A. for the year ended June 30, 2003, is as follows:

# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

	<u>Total M.S.C.P.A.</u>	<u>Village of Union City 4.00%</u>
<b>Total Assets</b>	<b><u>\$ 88,706,034</u></b>	<b><u>\$ 3,548,241</u></b>
Total Liabilities	\$ 76,202,861	\$ 3,048,114
Total Equity	<u>12,503,173</u>	<u>500,127</u>
<b>Total Liabilities and Equity</b>	<b><u>\$ 88,706,034</u></b>	<b><u>\$ 3,548,241</u></b>
Operating revenues	\$ 36,118,189	\$ 1,444,728
Operating expenses	(28,327,136)	(1,133,085)
Other revenues and expenses - net	(3,221,697)	(128,869)
Accumulated Equity at Beginning of Year	<u>7,933,817</u>	<u>317,353</u>
<b>Accumulated Equity at End of Year</b>	<b><u>\$ 12,503,173</u></b>	<b><u>\$ 500,127</u></b>

### 9. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt of the Village for the year ended March 31, 2004:

	<u>General Long-Term Debt Notes Payable</u>	<u>Proprietary Fund Types</u>			
		<u>Notes Payable</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Bonds payable, beginning of year	\$ 1,363	\$ 2,726	\$ 445,000	\$ 2,391,000	\$ 2,840,089
Less: Debt retired	<u>(1,363)</u>	<u>(2,726)</u>	<u>(25,000)</u>	<u>(40,000)</u>	<u>(69,089)</u>
<b>Bonds payable, end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 420,000</u></b>	<b><u>\$ 2,351,000</u></b>	<b><u>\$ 2,771,000</u></b>

# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

Long-term bonds consist of the following:

### WATER FUND

1995 Revenue Bonds - maturing \$10,000  
to \$50,000 annually, plus interest from  
4.75% to 6.10% through September 2014

\$ 420,000

### SEWER FUND

1995 Revenue Bonds - Farmers Home Administration  
payable, maturing \$25,000 to \$135,000 annually,  
(plus interest at 4.50%) through September 2033

2,351,000

**\$ 2,771,000**

The aggregate amounts of long-term debt, including interest of \$2,044,279 maturing in each of the next five years and thereafter at March 31, 2004, are as follows:

	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 25,000	\$ 24,015	\$ 40,000	\$ 105,458	\$ 65,000	\$ 129,473
2006	30,000	22,468	40,000	103,658	70,000	126,126
2007	30,000	20,765	45,000	101,183	75,000	121,948
2008	30,000	19,048	45,000	100,620	75,000	119,668
2009	35,000	17,171	45,000	99,270	80,000	116,441
Thereafter	270,000	51,548	2,136,000	1,379,075	2,406,000	1,430,623
	<u>\$ 420,000</u>	<u>\$ 155,015</u>	<u>\$ 2,351,000</u>	<u>\$ 1,889,264</u>	<u>\$ 2,771,000</u>	<u>\$ 2,044,279</u>

# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

### 10. CONTRIBUTED CAPITAL

Depreciation attributable to contributions from customers and from State and Federal grants has been transferred to contributed capital as follows:

	<b>Village and Customers - Sewer</b>	<b>State Grants - Water</b>	<b><u>Federal Grants</u></b>		<b><u>Total</u></b>
			<b><u>Water</u></b>	<b><u>Sewer</u></b>	
Contributed capital, March 31, 2003	\$ 36,800	\$ 61,742	\$ 115,537	\$ 2,054,450	\$ 2,268,529
Less depreciation	<u>(9,200)</u>	<u>(1,816)</u>	<u>(3,823)</u>	<u>(60,425)</u>	<u>(75,264)</u>
<b>Contributed capital, March 31, 2004</b>	<b><u>\$ 27,600</u></b>	<b><u>\$ 59,926</u></b>	<b><u>\$ 111,714</u></b>	<b><u>\$ 1,994,025</u></b>	<b><u>\$ 2,193,265</u></b>

### 11. RETIREMENT PLAN

The Village maintains a defined contribution pension plan called the Village of Union City Public Employees' Retirement Trust, which is administered by two public retirement plan administrators for substantially all employees. The employees must have attained 21 years of age and completed one year of service to become a participant in the plan. An employee is fully vested after six years of service. No employee contributions are required or can be made to the plan. The Village Council is authorized to amend benefit provisions and contribution requirements.

The total covered payroll under the plan for 2004 amounted to \$584,508 compared to \$657,138 of total payroll.

The Village is required to make annual contributions to the Village Employee's Pension Trust based on the percentage within the employee group's contracts.

Contributions made to the plan for the year ended March 31, 2004, amounted to \$27,579. The following is a schedule of the contributions by fund:

General Fund	\$ 7,033
Major Street Fund	2,150
Local Street Fund	2,150
Water Fund	2,492
Sewer Fund	2,492
Electric Fund	<u>11,262</u>
<b>Total</b>	<b><u>\$ 27,579</u></b>

# VILLAGE OF UNION CITY, MICHIGAN

## Notes To Financial Statements

### 12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Village has the Electric, Sewer and Water Enterprise Funds, which comprise the utility segment of Village operations. Segment information for the year ended March 31, 2004 is as follows:

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>
Operating revenues	\$ 1,609,412	\$ 350,818	\$ 244,017
Depreciation expense	20,190	151,219	26,582
Operating income (loss)	82,286	(67,563)	66,621
Net income (loss)	87,618	(169,083)	45,285
Fixed asset additions	40,500	-	-
Working capital	460,054	437,542	169,222
Total assets	1,536,616	5,378,441	1,151,036
Bonds and other long-term liabilities payable from operating revenues	-	2,316,000	400,000
Total equity	1,370,920	3,008,983	712,577

\* \* \* \* \*

**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

**GENERAL FUND**



**VILLAGE OF UNION CITY, MICHIGAN**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Amended Budget and Actual**  
**General Fund**  
**For the Year Ended March 31, 2004**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
General:			
Current property taxes	\$ 208,000	\$ 197,862	\$ (10,138)
State shared revenue	278,650	219,068	(59,582)
Charges for services	90,158	85,530	(4,628)
Sidewalk assessment	60,000	9,346	(50,654)
Fines	-	2,533	2,533
Interest	-	970	970
Equipment rentals	8,500	18,392	9,892
Other	30,000	1,855	(28,145)
Total general	675,308	535,556	(139,752)
Planning and zoning:			
Permit fees	-	60	60
Rezoning fees	-	220	220
Total planning and zoning	-	280	280
Total revenue	675,308	535,836	(139,472)
<b>Expenditures</b>			
Legislative - Village Council	5,000	4,043	957
General government:			
Clerk	80,000	50,803	29,197
Clerk-elections	2,000	1,083	917
General services administration	243,690	199,260	44,430
Treasurer	8,250	8,921	(671)
Building and grounds	31,900	28,403	3,497
Public safety:			
Police:	282,710	252,254	30,456
Fire:	56,905	43,765	13,140
Total expenditures	710,455	588,532	121,923
Revenue under expenditures	(35,147)	(52,696)	(17,549)
Fund balance, beginning of year	272,877	272,877	-
<b>Fund balance, end of year</b>	<b>\$ 237,730</b>	<b>\$ 220,181</b>	<b>\$ (17,549)</b>

**SPECIAL REVENUE FUNDS**

# VILLAGE OF UNION CITY, MICHIGAN

## Combining Balance Sheet

### Special Revenue Funds

March 31, 2004

	<u>ASSETS</u>	Major Street	Local Street	Revolving Loan	Total
<b>Assets</b>					
Cash and cash equivalents		\$ 127,386	\$ 260,670	\$ 66,781	\$ 454,837
Due from other governments		15,951	6,094	-	22,045
Inventory		8,246	8,246	-	16,492
	<u>TOTAL ASSETS</u>	\$ 151,583	\$ 275,010	\$ 66,781	\$ 493,374
	<u>LIABILITIES AND FUND BALANCE</u>				
<b>Liabilities</b>					
Accounts payable		\$ 660	\$ 433	\$ -	\$ 1,093
Accrued wages		702	94	-	796
Total liabilities		1,362	527	-	1,889
<b>Fund balance</b>					
Reserved for inventory		8,246	8,246	-	16,492
Unreserved - undesignated		141,975	266,237	66,781	474,993
Total fund balance		150,221	274,483	66,781	491,485
	<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 151,583	\$ 275,010	\$ 66,781	\$ 493,374

**VILLAGE OF UNION CITY, MICHIGAN**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Special Revenue Funds**  
**For the Year Ended March 31, 2004**

	<b>Major Street</b>	<b>Local Street</b>	<b>Revolving Loan</b>	<b>Total</b>
<b>Revenue</b>				
Current property taxes	\$ -	\$ 76,297	\$ -	\$ 76,297
State shared revenue	94,304	36,453	-	130,757
Interest	1,336	3,189	505	5,030
Other	684	684	-	1,368
Total revenue	96,324	116,623	505	213,452
<b>Expenditures</b>				
Public works	72,529	77,880	-	150,409
Total expenditures	72,529	77,880	-	150,409
Revenue over expenditures	23,795	38,743	505	63,043
Fund balance, beginning of year	126,426	235,740	66,276	428,442
Fund balance, end of year	\$ 150,221	\$ 274,483	\$ 66,781	\$ 491,485

**VILLAGE OF UNION CITY, MICHIGAN**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Amended Budget and Actual**  
**Major Street Fund**  
**For the Year Ended March 31, 2004**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
State shared revenue	\$ 91,034	\$ 94,304	\$ 3,270
Interest	-	1,336	1,336
Other	-	684	684
Total revenue	91,034	96,324	5,290
<b>Expenditures</b>			
Public works	100,349	72,529	27,820
Revenue over (under) expenditures	(9,315)	23,795	33,110
Fund balance, beginning of year	126,426	126,426	-
Fund balance, end of year	\$ 117,111	\$ 150,221	\$ 33,110

**VILLAGE OF UNION CITY, MICHIGAN**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Amended Budget and Actual**  
**Local Street Fund**  
**For the Year Ended March 31, 2004**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Current property taxes	\$ 103,923	\$ 76,297	\$ (27,626)
State shared revenue	-	36,453	36,453
Interest	-	3,189	3,189
Other	-	684	684
	<hr/>	<hr/>	<hr/>
Total revenue	103,923	116,623	12,700
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Public works	105,120	77,880	27,240
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	(1,197)	38,743	39,940
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year, as restated	235,740	235,740	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 234,543	\$ 274,483	\$ 39,940
	<hr/>	<hr/>	<hr/>

**VILLAGE OF UNION CITY, MICHIGAN**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Amended Budget and Actual**  
**Revolving Loan Fund**  
**For the Year Ended March 31, 2004**

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenue</b>			
Interest	\$ 840	\$ 505	\$ (335)
<b>Expenditures</b>			
Other expenditures	-	-	-
Revenue over (under) expenditures	840	505	(335)
Fund balance, beginning of year	66,276	66,276	-
Fund balance, end of year	\$ 67,116	\$ 66,781	\$ (335)

## **ENTERPRISE FUNDS**



**VILLAGE OF UNION CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Enterprise Funds**  
**March 31, 2004**

<u>ASSETS</u>	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>Current assets</b>				
Cash and cash equivalents	\$ 255,096	\$ 144,646	\$ 167,081	\$ 566,823
Receivables:				
Accounts receivable	170,532	36,983	9,778	217,293
Special assessments receivable	20,720	305,263	-	325,983
Inventory	117,527	4,108	30,822	152,457
Land investment	61,875	-	-	61,875
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	625,750	491,000	207,681	1,324,431
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Restricted assets</b>				
Cash and cash equivalents:				
Bond reserve	-	232,841	135,455	368,296
Equipment replacement	-	60,000	45,500	105,500
Total restricted assets	-	292,841	180,955	473,796
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fixed assets</b>				
Land	117,696	-	-	117,696
Water lines, net of accumulated depreciation of \$273,924	-	-	762,400	762,400
Electrical lines, net of accumulated depreciation of \$375,499	293,043	-	-	293,043
Sewer lines, net of accumulated depreciation of \$1,187,421	-	4,594,600	-	4,594,600
	<hr/>	<hr/>	<hr/>	<hr/>
Total fixed assets, net	410,739	4,594,600	762,400	5,767,739
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Other assets</b>				
Investment in M.S.C.P.A.	500,127	-	-	500,127
	<hr/>	<hr/>	<hr/>	<hr/>
 <b><u>TOTAL ASSETS</u></b>	 <u>\$ 1,536,616</u>	 <u>\$ 5,378,441</u>	 <u>\$ 1,151,036</u>	 <u>\$ 8,066,093</u>

**LIABILITIES AND FUND EQUITIES**

	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
<b>Current liabilities</b>				
Accounts payable	\$ 101,050	\$ 6,264	\$ 3,358	\$ 110,672
Accrued wages	7,231	2,149	1,905	11,285
Accrued interest payable	-	10,045	2,229	12,274
Customer deposits	57,415	-	10,967	68,382
Current portion of general obligation bonds	-	35,000	20,000	55,000
<b>Total current liabilities</b>	<b>165,696</b>	<b>53,458</b>	<b>38,459</b>	<b>257,613</b>
<b>Long-term debt</b>				
General obligation bonds payable, net of current portion	-	2,316,000	400,000	2,716,000
<b>Total liabilities</b>	<b>165,696</b>	<b>2,369,458</b>	<b>438,459</b>	<b>2,973,613</b>
<b>Fund equities</b>				
Contributed capital:				
Village	-	8,100	-	8,100
State of Michigan	-	-	59,926	59,926
Federal government	-	1,994,025	-	1,994,025
Customers	-	19,500	111,714	131,214
<b>Total contributed capital</b>	<b>-</b>	<b>2,021,625</b>	<b>171,640</b>	<b>2,193,265</b>
Retained earnings:				
Reserved for bond reserve and equipment replacement	-	292,841	180,955	473,796
Unreserved	1,370,920	694,517	359,982	2,425,419
<b>Total retained earnings</b>	<b>1,370,920</b>	<b>987,358</b>	<b>540,937</b>	<b>2,899,215</b>
<b>Total fund equities</b>	<b>1,370,920</b>	<b>3,008,983</b>	<b>712,577</b>	<b>5,092,480</b>
<b><u>TOTAL LIABILITIES AND FUND EQUITIES</u></b>	<b><u>\$ 1,536,616</u></b>	<b><u>\$ 5,378,441</u></b>	<b><u>\$ 1,151,036</u></b>	<b><u>\$ 8,066,093</u></b>

**VILLAGE OF UNION CITY, MICHIGAN**  
**Combining Statement of Revenue, Expenses,**  
**and Changes in Retained Earnings**  
**Enterprise Funds**  
**For the Year Ended March 31, 2004**

	Electric	Sewer	Water	Total
<b>Operating revenue</b>				
User fee charges	\$ 1,500,302	\$ 327,669	\$ 235,851	\$ 2,063,822
Sewer connections	-	23,150	-	23,150
Fire hydrants	-	-	7,840	7,840
Municipal water pumping	8,470	-	-	8,470
Municipal sewer pumping	47,491	-	-	47,491
Diesel room	3,458	-	-	3,458
Street lighting and traffic lights	16,495	-	-	16,495
Extension revenue	15,047	-	-	15,047
Other revenue	18,149	(1)	326	18,474
Total operating revenue	1,609,412	350,818	244,017	2,204,247
<b>Operating expenses</b>				
General administration	457,767	143,651	133,839	735,257
Maintenance	16,176	6,013	4,828	27,017
Production	950,148	-	-	950,148
Power and pumping	-	46,403	8,031	54,434
Distribution	82,845	71,095	4,116	158,056
Depreciation	20,190	151,219	26,582	197,991
Total operating expenses	1,527,126	418,381	177,396	2,122,903
Operating income (loss)	82,286	(67,563)	66,621	81,344
<b>Non-operating revenue (expense)</b>				
Interest revenue	5,332	5,023	3,828	14,183
Interest expense	-	(106,543)	(25,164)	(131,707)
Net non-operating revenue (expense)	5,332	(101,520)	(21,336)	(117,524)
Net income (loss)	87,618	(169,083)	45,285	(36,180)
<b>Add depreciation on contributed assets acquired with capital grants</b>	-	69,625	5,639	75,264
Increase (decrease) in retained earnings	87,618	(99,458)	50,924	39,084
Retained earnings, beginning of year	1,283,302	1,086,816	490,013	2,860,131
Retained earnings, end of year	\$ 1,370,920	\$ 987,358	\$ 540,937	\$ 2,899,215

# VILLAGE OF UNION CITY, MICHIGAN

## Combining Statement of Cash Flows

### Enterprise Funds

For the Year Ended March 31, 2004

	Electric	Sewer	Water	Total
<b>Cash flows from operating activities</b>				
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities operating income	\$ 82,286	\$ (67,563)	\$ 66,621	\$ 81,344
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	20,190	151,219	26,582	197,991
(Increase) decrease in assets:				
Accounts receivable	(5,537)	(1,218)	(325)	(7,080)
Special assessment receivable	917	31,878	-	32,795
Inventory	16,772	2,130	(57)	18,845
Investment in M.S.C.P.A.	(143,388)	-	-	(143,388)
Increase (decrease) in liabilities:				
Accounts payable	2,139	(2,376)	(13,505)	(13,742)
Accrued wages	1,926	(25)	278	2,179
Customer deposits	11,160	-	1,449	12,609
Other liabilities	(4,007)	-	-	(4,007)
Total adjustments	(99,828)	181,608	14,422	96,202
Net cash provided by (used in) operating activities	(17,542)	114,045	81,043	177,546
<b>Cash flows from capital and related financing activities</b>				
Principal paid on long-term debt	-	(40,000)	(25,000)	(65,000)
Interest paid on long-term debt	-	(106,695)	(25,410)	(132,105)
Purchases of fixed assets	(40,500)	-	-	(40,500)
Net cash used in capital and related financing activities	(40,500)	(146,695)	(50,410)	(237,605)
<b>Cash flows from investing activities</b>				
Interest received	5,332	5,023	3,828	14,183
Net increase (decrease) in cash and cash equivalents	(52,710)	(27,627)	34,461	(45,876)
Cash and cash equivalents, beginning of year	307,806	465,114	313,575	1,086,495
Cash and cash equivalents, end of year	\$ 255,096	\$ 437,487	\$ 348,036	\$ 1,040,619

## **FIDUCIARY FUNDS**

**VILLAGE OF UNION CITY, MICHIGAN**  
**Balance Sheet**  
**Trust and Agency Fund**  
**March 31, 2004**

	<u>Agency Fund</u> <u>Compensated</u> <u>Absences</u>
<b>Assets</b>	
Cash	<u>\$          97,449</u>
 <b>Liabilities</b>	
Compensated absences	<u>\$          97,449</u>

**VILLAGE OF UNION CITY, MICHIGAN**

**Statement of Changes in Assets and Liabilities**

**Compensated Absences Agency Fund**

**For the Year Ended March 31, 2004**

	<b>Balance March 31, 2003</b>		<b>Additions</b>		<b>Deductions</b>		<b>Balance March 31, 2004</b>
<b>Assets</b>							
Cash	\$ 115,906	\$	9,748	\$	28,205	\$	97,449
Total assets	<u>\$ 115,906</u>	<u>\$</u>	<u>9,748</u>	<u>\$</u>	<u>28,205</u>	<u>\$</u>	<u>97,449</u>
<b>Liabilities</b>							
Compensated absences	\$ 115,906	\$	9,748	\$	28,205	\$	97,449
Total liabilities	<u>\$ 115,906</u>	<u>\$</u>	<u>9,748</u>	<u>\$</u>	<u>28,205</u>	<u>\$</u>	<u>97,449</u>



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

May 28, 2004

Village Council  
Village of Union City  
Union City, Michigan

We have audited the general purpose financial statements of the ***VILLAGE OF UNION CITY, MICHIGAN***, as of and for the year ended March 31, 2004, and have issued our report thereon dated September 18, 2004. In our report, our opinion was qualified because the general purpose financial statements do not include a general fixed asset account group. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the ***Village of Union City's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *Village of Union City's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohman*



# REHMANN ROBSON

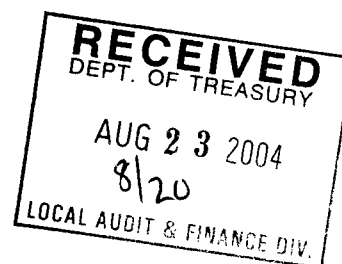
*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

May 28, 2004

Village of Union City  
208 North Broadway  
Union City, Michigan



We have audited the general purpose financial statements of *Village of Union City, Michigan*, for the year ended March 31, 2004, and have issued our report thereon dated May 28, 2004. Professional standards require that we provide you with the following information related to your audit.

### **Our Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter dated April 10, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Village of Union City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Union City are described in Note 1 to the general purpose financial statements.

We noted no transactions entered into by Village of Union City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Management's estimate of the useful lives of depreciable fixed assets in the Water, Sewer and Electric proprietary funds are based on the length of time it is believed that those assets will provide economic benefits in the future.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed various bookkeeping and audit adjustments that, in our judgment, in the aggregate, had a significant effect on the Village of Union City. The Village has posted all journal entries that we have identified as significant, and their effect is included in the Village's financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Village of Union City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum are intended for the use of the Village Council and management of Village of Union City. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

*Rehmann Lohorn*

# **VILLAGE OF UNION CITY, MICHIGAN**

## **Accounting Memorandum**

**For the Year Ended March 31, 2004**

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During our audit we became aware of certain issues regarding financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 28, 2004 on the financial statements of Village of Union City.

### **General Ledger Maintenance/Pooled cash**

We have noted improvements in general ledger maintenance over the past year. The number of auditor adjusting journal entries has been reduced over the last two fiscal years, for which the Village should be commended. However, we noted certain of our adjustments from the prior year were not posted. At the onset of our audit, these adjustments were again reflected. We understand that one reason the entries were not posted is because they affected the interfund receivables and payables between funds and were adjusted through each fund's cash account, which can be done because all involved funds are part of the pooled cash account, where separate general ledger control is maintained for each fund's equity in the pool, which is allowed by Michigan law. It should be noted that these entries will not affect the pooled account bank reconciliation total cash, and serves to reflect interfund transactions properly without setting up due to and due from balance sheet accounts.

We recommend that the Office Manager post all adjusting entries in order to streamline the accounting and audit process. Also, the Village should consider taking the next step in closing-out procedures which is to record year-end accruals including accounts receivable and accrued payroll.

### **GASB #34 – New Reporting Requirements**

As you know, the fiscal year ending March 31, 2005 marks the year of required implementation of Governmental Accounting Standards Board Statement # 34, which is an overwhelming changes in the model for governmental annual reports. These significant changes will include the following:

- ❖ A new government wide financial statement reporting on the full accrual basis of accounting, which will accompany the traditional reporting model (on a modified accrual basis)
- ❖ Modification of the manner in which the traditional model will be reported
- ❖ Inclusion of a new narrative section entitled "Management Discussion and Analysis" which will present summarized financial results and inform the user of the financial statements of significant financial developments at the Village during the year
- ❖ Inclusion of fixed assets including Village infrastructure and related depreciation calculations into the model

# **VILLAGE OF UNION CITY, MICHIGAN**

## **Accounting Memorandum (Concluded)**

**For the Year Ended March 31, 2004**

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The Village has started the process of gathering information for fixed asset cost and acquisition date, and hopes to complete by the end of the calendar year. If the Village wants additional assistance in this area, or would like our firm to monitor the progress of these GASB 34 tasks as we have done with scores of other governmental units, please let us know and we would be glad to assist you.

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